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BEFORE THE ARIZONA CORPORATION COMMISSION

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BOB STUMP

Arizona Corporation Commission

DOCKETED

AUG 2 2010

DOCKETED BY

*[Signature]*

IN THE MATTER OF THE APPLICATION  
OF ARIZONA PUBLIC SERVICE  
COMPANY'S FOR MODIFICATION TO  
THE RESIDENTIAL DISTRIBUTED  
ENERGY INCENTIVE

DOCKET NO. E-01345A-09-0338

**REQUEST FOR CLARIFICATION  
AND MODIFICATION OF  
RESIDENTIAL INCENTIVE**  
*Expedited Treatment Requested*

With this filing, Arizona Public Service Company ("APS" or "Company") is seeking clarification from the Arizona Corporation Commission ("Commission") regarding certain provisions of Decision No. 71686.<sup>1</sup> In that Decision, the Commission authorized APS to initiate reservations for residential photovoltaic ("PV") installations during the last quarter of 2010 that would be paid for with 2011 incentive funds. The Decision is silent regarding any limitation on the amount of 2011 funds to be committed during 2010. The specific issues to be addressed by this filing are the level of 2011 residential incentive funds that should be committed during the last quarter of 2010, and the amount of the incentive. It is necessary to address these issues now because if the trend of high customer demand continues, a significant amount of 2011 residential distributed energy ("DE") funding could be committed before year end 2010.

Specifically, APS is seeking approval to administer applications for incentive funding during the last quarter of 2010 consistent with the proposal set forth in the Company's 2011 RES Implementation Plan for Funding Cycle 1 of 2011.<sup>2</sup> In this filing, APS is requesting

<sup>1</sup> Issued April 30, 2010.

<sup>2</sup> The 2011 Implementation Plan continues the Commission's approach regarding funding cycles, which was introduced in Decision No. 71686. APS is proposing an "Incentive Accounting Year," where the requests received in the last quarter of the year for residential incentives would be paid from the following year's budget. With this proposed methodology,

1 approval to implement a reduction in its residential incentive for grid-tied PV systems to  
2 \$1.75 per watt at the time that the Company begins to commit its 2011 residential incentive  
3 funding. Additionally, to maintain a sustainable incentive program, APS is requesting that  
4 the Commission limit the number of reservations that can be initiated in the last quarter of  
5 2010 to 600 reservations. APS's proposal will allow the Company to maintain a stable  
6 residential incentive program, and will allow customers and installers to plan effectively. To  
7 assure transparency now and into 2011, while the Commission's determination is pending,  
8 APS intends to notify customers of incentive levels consistent with those proposed in the  
9 2011 Implementation Plan.

10 To provide certainty to customers and their solar providers regarding the availability  
11 and level of residential incentives, APS is seeking expedited treatment of this application.

12 **I. Decision No. 71686: Incentive Modifications**

13 Since the fourth quarter of 2009, APS has seen unprecedented customer demand in its  
14 residential DE incentive programs. This demand led APS to file an application in March  
15 2010 requesting that the Commission modify the Company's residential DE incentives to  
16 assure that incentive funding would be available for its customers throughout 2010. In  
17 Decision No. 71686, the Commission approved the modifications discussed below.

18 To address the concern that residential DE incentives could be depleted before the end  
19 of 2010, the Commission reduced the amount of incentives to be paid, and provided a  
20 methodology to pace distribution of the incentive funds for the remainder of the year. The  
21 Commission lowered the incentive from \$3.00 per watt to \$2.15 per watt for grid-tied PV  
22 systems, and approved an automatic capacity-based "step down" in the residential incentive  
23 for PV systems. Once the incentive program achieved an additional three megawatts of  
24 capacity from these systems, the incentive would automatically decrease to \$1.95 per watt.<sup>3</sup>

25 The Commission also directed APS to implement three tranches of funding for 2010.  
26 The first tranche ("Funding Cycle 1") began April 1<sup>st</sup> and ended July 1<sup>st</sup>; the second tranche

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27 Funding Cycle 1 of 2011 would actually begin on October 2, 2010 and end on December 31, 2010. The 2011  
28 Implementation Plan, filed July 1, 2010, is currently pending Commission approval in Docket No. E-01345A-10-0262.

<sup>3</sup> The reduction to \$1.95 occurred April 14, 2010.

1 (“Funding Cycle 2”) began July 2<sup>nd</sup> and will end October 1<sup>st</sup>; and the third tranche (“Funding  
2 Cycle 3”) will run from October 2<sup>nd</sup> through December 31, 2010. Funding Cycles 1 and 2  
3 were to be funded from the 2010 residential DE budget, with at least \$5 million set-aside for  
4 the second tranche. In Funding Cycle 3, APS was authorized to initiate reservations for 2011  
5 residential compliance with notice to customers that residential systems reserved after  
6 October 1, 2010 and before January 1, 2011 may not be funded until January 1, 2011.<sup>4</sup> The  
7 Commission did not set a limit on the funding commitments that would be made during the  
8 last quarter of 2010 and did not contemplate an incentive step-down during that period.

## 9 **II. 2010 Program Funding Update**

10 Notwithstanding modifications to incentive funding that has reduced the amount of  
11 incentives paid to residential customers for PV systems, customer demand for PV incentives  
12 continues to significantly outpace the amount of funding available. The following describes  
13 the status of the 2010 Funding Cycles for grid-tied PV systems based on the tranches defined  
14 in Decision No. 71686.

15 *Funding Cycle 1 of 2010* closed on July 1<sup>st</sup> with a total of 296 reservations, totaling  
16 \$4.9 million in incentive payments. During this Funding Cycle, 180 reservations were  
17 committed at \$3.00 per watt and 116 reservations at \$2.15 per watt. A total of 2.23  
18 megawatts of PV were reserved during Funding Cycle 1.

19 *Funding Cycle 2 of 2010* opened on July 2<sup>nd</sup> and on the first day, APS already had  
20 requests from residential customers totaling over \$16.9 million. As of the date of this filing,  
21 Funding Cycle 2 is fully subscribed for residential grid-tied PV incentives. A total of 240  
22 reservations were originally issued, totaling \$3.6 million in incentive payments.

23 As the Company has previously reported to the Commission,<sup>5</sup> APS had anticipated that  
24 in 2010 additional funding would become available for residential incentives. In its  
25 administration of the DE incentive program, APS has observed that some planned projects do  
26 not get completed within the timeframe originally reported, and that some customers who had

27  
28 <sup>4</sup> Decision No. 71686 at 4-5.

<sup>5</sup> See Letter from APS to Chairman Mayes dated June 4, 2010, which was filed in this docket.

1 requested incentives ultimately decide not to install systems. As a result, additional funds did  
2 become available. As of July 5, 2010, APS was able to allocate \$4 million in RES funds to  
3 support continued customer demand for residential DE incentives during Funding Cycle 2,  
4 which resulted in an additional 225 reservations. The total number of reservations committed  
5 in Funding Cycle 2 was 465; 16 reservations were made at \$2.15 per watt and 449  
6 reservations were made at \$1.95 per watt. A total of 3.4 megawatts of PV applications were  
7 reserved in Funding Cycle 2.

8 *Funding Cycle 3 of 2010* will begin on October 2<sup>nd</sup> and to date, APS has already  
9 received a total of more than 892 applications for grid-tied PV systems, totaling 6.05  
10 megawatts (\$11.8 million in incentive payments at \$1.95 per watt). Similar to Funding Cycle  
11 2, APS anticipates that approximately \$4 million in additional funding may become available  
12 in Funding Cycle 3, which could result in approximately 285 reservations at \$1.95 per watt.

13 The total 2010 budget for residential up-front incentives, including an estimated \$8  
14 million of reallocated funds, is \$52 million. Currently, APS has received the equivalent of  
15 \$62.5 million in customer requests for incentive funding. This has necessitated the Company  
16 to shift the scheduling of \$10.5 million in customer requests against a presumed 2011  
17 residential incentive budget.

### 18 **III. Proposal for 2010 Funding Cycle 3**

19 There is no indication that residential customer demand will slow. Historically  
20 customer requests for incentives accelerate at year-end, and as a result, APS is concerned  
21 about the strain on 2011 funding that could occur during the last quarter of 2010. To address  
22 those concerns, APS is requesting that the strategy for residential DE incentives proposed in  
23 the Company's 2011 RES Implementation Plan<sup>6</sup> be adopted for the 2010 Funding Cycle 3,  
24 where Funding Cycle 3 of 2010 effectively becomes Funding Cycle 1 of 2011.

25 For any additional 2010 funding that may become available due to project delays or  
26 cancellations during Funding Cycle 3, APS is proposing to pay incentives at \$1.95/watt.<sup>7</sup> If

27  
28 <sup>6</sup> Docket No. E-01345A-10-0262, filed July 1, 2010.

<sup>7</sup> As authorized currently by Decision No. 71686.

1 the approximately \$4 million in additional funding that APS anticipates may become  
2 available in Funding Cycle 3 comes to fruition, this would result in approximately 285  
3 reservations. APS is also proposing that with the additional funding from the 2011  
4 residential incentive budget, an additional 600 reservations made between October 2<sup>nd</sup> and  
5 January 1, 2011 would be offered at \$1.75 per watt and payable to customers no sooner than  
6 January 2, 2011. The total cost for those reservations is estimated to be \$6.8 million and  
7 would result in approximately 3.9 megawatts of additional PV capacity.

8 If the Commission authorizes APS to reserve those 600 reservations at \$1.75 per watt,  
9 each customer currently in the queue that is eligible for the next level of funding would be  
10 notified directly by APS, as well as through their installer. APS would offer customers an  
11 addendum that would provide them an opportunity to accept or decline the incentive at the  
12 \$1.75 level. This notification would allow each customer 30 days to return the addendum to  
13 confirm and secure their reservation. If APS did not receive the addendum within the allotted  
14 30 days, their application would be withdrawn and the incentive funds would be placed back  
15 into the budget for the next customer in the queue. In addition, APS would post a notification  
16 that the incentive level has been updated on the Company's website<sup>8</sup>.

#### 17 **IV. Conclusion**

18 To assure that the funding constraints for residential DE incentives are not repeated in  
19 2011, APS recommends a two-prong approach for 2010 Funding Cycle 3, which is consistent  
20 with the Company's proposals in its 2011 Implementation Plan:

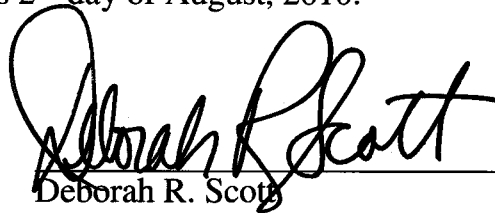
- 21 1) Funding Cycle 3 of 2010 (October 2<sup>nd</sup> through January 1, 2011) effectively  
22 becomes Funding Cycle 1 of 2011, with a cap of 600 reservations for 2011  
23 funding. The remaining Funding Cycles of 2011 would also be capped at  
24 600 reservations.
- 25 2) For any commitments made for 2011 residential DE funding in Funding Cycle 3,  
26 the incentive level for grid-tied PV systems would be reduced to \$1.75 per watt.

27  
28 <sup>8</sup> [www.aps.com](http://www.aps.com)

1 APS requests Commission approval of the Company's Funding Cycle 3 proposal as  
2 soon as possible. By implementing the Company's proposed administration of the Funding  
3 Cycles, customers and their solar providers can plan in a meaningful way by understanding  
4 when the incentive funds will be available, and how much of an incentive will be paid. For  
5 these reasons, APS is requesting that the Commission act in an expedited matter to resolve  
6 these issues.

7 RESPECTFULLY SUBMITTED this 2<sup>nd</sup> day of August, 2010.

8  
9  
10 By:



Deborah R. Scott

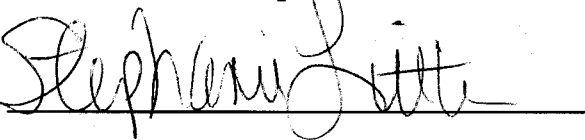
Attorney for Arizona Public Service Company

11  
12  
13 ORIGINAL and thirteen (13) copies  
14 of the foregoing filed this 2<sup>nd</sup> day of  
15 August, 2010, with:

16 Docket Control  
17 ARIZONA CORPORATION COMMISSION  
18 1200 West Washington Street  
19 Phoenix, Arizona 85007

20 COPY of the foregoing mailed/delivered this  
21 2<sup>nd</sup> day of August, 2010 to:

22 See attached list of parties.



Copies of the foregoing hand-  
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